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Solid Wood Products

Russia's International Forestry Forum

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Report Highlights:

The International Forestry Forum held in St.Petersburg, October 12-16, 2004 brought together federal and local governments, industry and business leaders to address important issues for the future development of Russia's forest sector. The following issues were considered important for the sustainable development of forestry in Russia: the new Forest Code, lack of transparent regulations, changes in tariff policy for wood products, and mechanisms for fighting timber poaching and illegal trade.

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Executive Summary

The International Forestry Forum held in St.Petersburg, October 12-16, 2004 brought together federal and local governments, industry and business leaders to address important issues for the future development of Russia's forest sector. The following issues were considered important for the sustainable development of forestry in Russia: the new Forest Code, lack of transparent regulations, changes in tariff policy for wood products, and mechanisms for fighting timber poaching and illegal trade.

Valeriy Roshchupkin, Head of the Federal Agency for Forestry, delivered some data at the forum regarding the sector's performance in 2003, such as: wood harvest in 2003 reached 128 million m³, which represents only 23 percent of the total allowable cut of 550 million m³, and that exports of forest products increased by 12 percent in 2003 compared to the previous year. He also mentioned that investments in the sector reached \$825 million, only three percent of the total foreign investment in Russia.

This year Russian officials have made a breakthrough by acknowledging that illegal logging is a serious economic and environmental problem in Russia. Representatives of the Ministry of Natural Resources and Ministry of Economic Development and Trade reported that the mechanisms to fight illegal logging are still being developed and coordination among different agencies is critical for the implementation and success of the rules. Business leaders at the Forum also expressed their concerns about the delay in the approval of the new Forest Code.

General Situation/Outlook

According to the President's Plenipotentiary Representative in the Northwest Federal District Il'ya Klebanov, the problem of competitiveness of the forestry sector is of high importance on the eve of Russia's WTO membership. According to him, manufacturing products to meet international quality standards will require investments to upgrade production facilities, training of personnel, applying scientific research, and efficient financing.

Participants also stressed the need for increasing transparency in forestry products commerce and to develop a unified electronic database. So far, there are considerable discrepancies in the data provided, for example, by Goskomstat and Vneshtorgbank, as seen below:

Data, 2003	Goskomstat	Vneshtorgbank
Logging volume, million m ³	128	190
Investment, billion \$	10	16
Export return, billion \$	5.2	7.5

Source: "Lesnaya Gazeta", October 23, 2004.

In his opening speech Valeriy Roshchupkin addressed recent developments and trends in the forestry sector. He reported that the total wood harvest reached 128 million m³ in 2003, or 1.5 percent above the previous year, which represents only 23 percent of the total allowable cut of 550 million m³. Forest products exports increased by 12 percent in 2003. Investment in the forestry sector is estimated at \$825 million, or three percent share of total foreign investment. He noted that the forest industry is far below its potential, which is attributed to the following:

- Lack of a forest code;

- Lack of a clear division of responsibilities between federal and regional governments regarding the management of forestry resources;
- The poor condition of mills and processing equipment;
- Lack of diversified custom tariff policy;
- The fact that most forestry sites can not be accessed due to poor road conditions;
- Lack of clear and transparent regulations to stimulate investment;
- Insufficient federal financing for regional forestry administrations, estimated to be only 7-8 percent of the amount required; and
- Timber poaching and illegal trade.

A distinguishing feature of this year's Forum was the active involvement of the participants in discussions of the "Project for Forestry Complex Development to 2015." Several scenarios were addressed. However, according to Mr. Roshchupkin, the "government is interested in the most energetic scenario, which requires a considerable improvement in investment in two to three years term and a growth rate of 19 percent by 2010. Russia's share of world wood production by 2015 is estimated at six percent. However, this optimistic scenario can only be materialized if investments in the forest sector increase to \$48 billion compared to the current level of \$825 million."

Illegal Logging

Russia has made a significant step forward this year in controlling illegal logging. During the last three years the Russian Federation has taken almost no official part in the international negotiation process concerning sustainable forestry and forest use. Self-isolation from many international processes on forests was of great consequence to growing obsolescence in Russia's forestry management, lack of concern among major foreign countries about timber poaching and illegal trade due to official indifference to those problems, and made it impossible to use the experience of sustainable forest management. In the past the problem of illegal logging in Russia was represented as "a political provocation, impeding export of production of Russia's forest sector" by many Russian officials. Today illegal logging is commonly acknowledged as leading to billions of dollars of lost tariff and tax revenue, lost jobs, corruption, and environmental damage throughout Russia.

Russian officials have strengthened their position by acknowledging that illegal logging is a serious economic and environmental problem in Russia. But this is not only a problem for forest product suppliers, but equally for countries that consume timber products.

According to representatives of the Ministry of Natural Resources and Ministry of Economic Development and Trade, the mechanisms that will combat illegal logging are being developed, and it is crucial to their success to coordinate the efforts of different institutions and services.

Forest Code

There was consensus among participants in the Forum that further development in Russia's forest sector is currently restrained by a lack of a legal framework, which can attract investors by reducing uncertainty on the ownership rights for forest resources, and foster a higher level of wood processing. The reason for this is the lack of a forest code, the draft of which is still being debated due to continued dissension among government, industry, social and environmental organizations.

The Forest Code was the basis for heated discussions at all levels at the event, and its adoption was the major issue addressed in almost every speech. The draft is still

underconsideration in the government and Mr. Roshchupkin made the point that the draft will be passed by Duma by the end of the year. However, it is not likely to be adopted in 2004. In fact, government sources recommended that forest leaders prepare their work plans for CY 2005 based on the current legislation.

The most detailed speech was delivered by Aleksander Belyakov, the First Deputy Chairman of the Committee of Natural Resources of the State Duma of the Russian Federation. He stated that the new draft of the Code is more transparent than the current one. The major changes to the existing code are: 1) possibility for long-term lease of forests for 99 years, 2) privatization of forest plots, and 3) substitution of competitions for auctions.

Mr. Belyakov also noted that several issues were not fully reflected in the document, such as concessions that could improve investment in the forestry sector, forest management cannot be done by both federal and regional levels, and monopolization of forest resources management by the federal government. Another shortfall of the new version is the substitution of competitions with auctions that will be awarded strictly on the basis of price offered. However, other benefits, such as job creation and improvement of infrastructure, will not be taken into account. According to Mr. Belyakov and representatives of the forestry industry, the introduction of auctions will not make the system more transparent but rather impose more administrative barriers and create speculation in forest plots.

On the other hand, according to Vsevolod Gavrilov, Deputy Director for Land and Property relations in the economy of utilization natural resources at the Ministry of Economic Development and Trade, the new mechanism will allow an influx of new capital that will increase competitiveness and will bring transparency and efficiency in business.

The new draft code also stipulates the right for private ownership for forestry resources. However, a different law called "On Turnover of Forestry Lands Fund" will regulate the issue of private ownership for forests. That law is not likely to be passed anytime soon.

Business representatives addressed the possible introduction of an auction and its shortfalls as well. Dmitriy Chuyko, Director of Business Development of "Ilimp Pulp" company, believes that favorable investment environment and transparent government policy are an inseparable part to the further development of the sector. However, according to the spokesman, the new code does not have a solution for lack of coordination between the government and business.

Another concern for the forest sector is the transition period for activating the new legislation. Companies that used the current competition system and have agreements for forest plots in place could in theory lose their investments in infrastructure with the new auction system.

Tariff Policy

According to Mr. Roshchupkin, the government is supposed to conduct a selective and "assortment" tariff policy for wood raw material and value-added, further-processed forestry products.

The Council of Forestry Exporters of the Russian Federation recommended and the government approved the elimination of exports tariffs in 2003-04 for a number of high-value products. According to Government Resolution #233 dated May 11, 2004, export tariffs for three categories, including charcoal (HTS 4402 00 000 0-4421), laminated forest products (HTS 4418 90 100 0), and other wood products (HTS 4421 90 980 0) were

abolished. The Council considered this measure a positive signal to stimulate local producers to export high-value products.

Another breakthrough in the Russian tariff policy was the Government Resolution #477 of September 21, 2004, higher import "assortment" duties (separated by more categories) for furniture. The import duties used to be valid for nine months only and did not take into account diversification of furniture imports. Thus, according to the recent government resolution, the import duty for furniture that cost less than 1.8 Euro per kilogram will be 0.75-0.76 Euro per kilogram, and above 1.8 Euro, the import tariff is set for 20 percent. The import tariff is fixed and will cover about 80 percent of the total furniture imports. According to analysts, introduction of new import tariff will make it possible to cut down imports of counterfeited trademark furniture and dumping of furniture products by 12 to 15 percent.

Forum's Profile

October 12-16, 2004 the city of St. Petersburg and Leningrad Oblast hosted the Sixth International Forestry Forum entitled "Russian Forestry Complex in the XXI Century" under the sponsorship of the Russian President's Plenipotentiary Representative for the Northwest Federal District. The Forum had the active participation of the Russian Ministry of Industry, Science and Technologies, the Ministry of Natural Resources, the Ministry of Economic Development and Trade, the Government of Leningrad Oblast and the Administration of St. Petersburg, as well as leading trade associations and unions of Russia's forestry sector.

St. Petersburg and Leningrad Oblast were the venue for this forum because of their advantageous geographic position, high level of research and investment potential, effective transport links with European Union nations, and the fact that the region accounts for over 50 percent of forest resources and woodworking enterprises of European Russia.

The International Forestry Forum is an annual event held in October and has become one of the most important forestry events in Russia. This year's forum enjoyed the participation of more than 900 enterprises and organizations from 35 Russian regions and 19 countries. The Forum's congress had over 2,400 delegates, including 1,172 at the plenary meeting and over 1,300 at conferences and roundtable meetings.

In addition to the plenary and roundtable meetings, the Forum highlighted the following conference topics: problems of sustainable forest management and development, outlook for demand of forestry products on the world market, legal and economic issues of structural reforms of forest management systems, forests management and distribution of responsibilities for controlling and handling of forestry resources, use of high technology for the Russian forest products market, trends in the development of the Russian furniture market, the paper and pulp industry of northwest Russia, and developments in the wood processing industry. Representatives of the federal and local governments, and industry and business leaders addressed changes in legislation and increasing investments in the Russian forest complex.

The Forum included the following international specialized exhibitions:

- ? "Interles" - technologies and equipment for forestry, logging and initial timber processing in forests,
- ? "Tekhnodrev" - technologies, equipment and tools for woodworking and furniture making,

- ? "WoodPulpexpo" - timber and paper products, technologies for pulp-and-paper industry and chemical treatment of timber,
- ? "St. Petersburg Furniture Salon - IFEP", and
- ? "Fittings, Components and Materials for Furniture Making - ISAP".